

This report is divided into two parts:

The first consists of items on situations where developments may occur in the near future.

The second part consists of status reports on other important situations where critical developments are not expected immediately.

State Dept. review completed

23 Dec 54

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PART I

USSR TAKING TOUGH LINE  
AGAINST PARIS ACCORDS

All signs point to a continuation of Moscow's tough line in dealing with the Paris agreements. Orbit diplomacy and propaganda are expected to continue to work overtime in attempts to convince the West that ratification will force Moscow to take the countermeasures outlined during the recent Orbit security conference.

Even conditional ratification by France will probably be the signal for putting some of these countermeasures into effect. Likely developments include the following:

Calling of a new Orbit security conference.

Announcement that a unified Satellite command had been formed.

Announcements implying a build-up of Orbit military strength and further deployment of Soviet divisions to the Satellites.

Announcement that for every West German division formed, a counterpart division will be formed in East Germany.

Bellicose declarations of Soviet capabilities, including greater emphasis on nuclear strength.

In an effort to use both hard and soft measures to influence Western opinion, the Kremlin may be considering the proper timing for a soft overture. Among such possible overtures would be a renewal of previous proposals that all occupying powers in Germany withdraw their troops. An announcement of this

sort would, however, have almost no propaganda value in Germany.

In Berlin, the most likely place for the USSR to apply concrete pressure, harassing action may occur before West German ratification in an effort to lend weight to Soviet threats.

There are some signs that progress toward German rearmament is causing some strain among the Soviet leaders as they approach the point where a critical review of their policies since Stalin's death may be necessary.

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OVERTHROW OF MENDES-FRANCE  
LIKELY EARLY NEXT YEAR

While it is our best guess that the French assembly will approve the Paris agreements, it is probable that implementation of the accords will be made contingent on solution of the Saar problem.

Premier Mendes-France's government is likely to fall early next year, however. Many deputies who have long been hostile to the premier have wanted to wait until the accords were ratified before overthrowing his cabinet.

The premier's regular supporters continue to have about 25 votes fewer than a parliamentary majority, and the opposition has shown increasing strength in recent votes.

Mendes-France's projected economic reforms make him particularly vulnerable. A cut in the subsidy to alcohol distillers will cost him support on the right; cuts in the social welfare program and reforms in the nationalized industries will probably cost votes on the left and center. Further deterioration of the French position in Indochina or North Africa would have enough emotional impact to cause his overthrow.

The premier may try to save his government by again seeking inclusion of the Socialists--who avoided a similar bid just before Mendes-France visited the United States in November. If the premier makes another such attempt, fails, and is overthrown, another prolonged cabinet crisis is likely.

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**DIEM'S POSITION**  
**EXTREMELY SHAKY**

Renewed friction between Premier Diem and the sects appears an almost certain prospect in the next few weeks. Diem achieved a degree of harmony with the sects by taking their advice on the appointment of a defense minister--at the expense of a more able man--but he aims to transform the army into an effective arm of his government and this would reduce the sects' autonomy.

Diem is faced with the need to establish new national economic institutions (banking, customs, etc.) following the abandonment on 1 January of the French-dominated, Indochina-wide economic system. He can publicize this nationalization process as evidence of his government's independence, but Vietnamese performance will almost certainly provide the French new opportunities to point to Diem's ineptitude. They continue to propose alternatives to Diem. Their firm opposition to him, combined with his own failures, leave his position extremely shaky.

The Vietnamese government plans a campaign in France to convince the French government and people that South Vietnam is not prepared to accept general elections in 1956. The campaign will probably stress the "illegality" of elections while attempting to disguise a fear of their result.

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COMMUNISTS GAINING  
IN INDONESIA

New gains by the Indonesian Communists seem certain.

They are threatening a general strike against foreign estates after 31 December. The government is aware of the threat to the nation's economy, but is in no position to deny support to the laborers' demands, since it needs Communist votes in parliament.

The Communists also are attempting to win the present government's sanction for the establishment of their own paramilitary force.

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President Sukarno recently assured our ambassador the elections would be held next summer, as scheduled, but has failed to go on record publicly to that effect. He likes the present government and may support a postponement of the elections rather than face a change.

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EGYPTIAN REGIME SUFFERS  
SETBACK IN SUDAN

Egyptian efforts to achieve political union with the Sudan have suffered a serious setback as a result of the present cabinet crisis in Khartoum, which threatens the existence of Premier Azhari's prounion government.

Recent events in Cairo, particularly the removal of President Nagib by Premier Nasr, have lessened Sudanese sentiment for union. Serious disorders are likely if the Azhari government adopts highhanded measures to suppress popular demand, reported to be growing, for complete independence of the Sudan.

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The Nasr regime in Cairo is politically committed to obtaining union of the two countries

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Cairo's activities in the Sudan are the only generally popular achievement of the regime. Accordingly, a reversal there can be expected to have severe political repercussions in Egypt.

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US OIL COMPANIES INVOLVED  
IN NEW BRITISH-ARAB DISPUTE

A new dispute between Saudi Arabia and Britain threatens to break out along the undefined border between Saudi Arabia and British-ruled Dhofar in the southern part of the Arabian Peninsula.

The Saudi government recently protested to London against the presence of oil company parties, with British authorization, in northern Hadhramut, where the Iraq Petroleum Company has a concession, and in northern Dhofar, location of Cities Service-Richfield explorations.



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A British Foreign Office official warned on 20 December that London would take strong exception to any Saudi move into the area and expressed the hope that ARAMCO would not become involved.

If ARAMCO should refuse a request by the king to enter this region, the Saudis might denounce the company for failure to fulfill its contract. ARAMCO entry into the area, however, would probably precipitate a crisis with Britain similar to that of last May when ARAMCO--under Saudi pressure--entered British-claimed Trucial Coast territory in connection with the old Buraimi dispute.

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VIET MINH MAY MOVE  
AGAINST HANOI CONSULATE

The Viet Minh's anti-American propaganda, which now fills half the Hanoi press, may soon develop into something more concrete. A mass demonstration against "American imperialism" is reported being organized to take place in Hanoi before the end of December. A direct move to close the Hanoi consulate is a possibility although more subtle measures against it appear probable. The consulate has no legal access to Viet Minh currency and its present supply will last only until early January.

The Viet Minh may also make a new request that the truce commission investigate the numbers and activities of MAAG personnel in the south.

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ROK THREATENS COMMUNIST  
MEMBERS OF TRUCE TEAMS

There is an increasing possibility that President Rhee will order violent action soon against the Polish and Czech members of the Neutral Nations Inspection Teams in South Korea. The likelihood of such action in the near future has been increased by the ROK provost marshal general's statement on 22 December that the time for warnings had come to an end and that the Korean people insisted on positive action to remove the Communist "spies" now serving on the teams.

Renewal of the threat of action, postponed in late November, is a reaction to the failure of American diplomatic efforts to induce the Swiss and Swedish governments to terminate the teams' activities.

Any official South Korean move would immediately precipitate a crisis with the UN Command, which has repeatedly warned Rhee of its obligation under the armistice to protect the teams. For this reason, any incidents are likely to be carried out by groups of "patriotic youths" or "disabled veterans" as "expressions of outraged popular will," for which Rhee could disclaim responsibility. Incidents last summer, involving shootings and homemade bombs, led General Taylor to emphasize the impossibility of ensuring the absolute security of the teams.

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It is possible that the renewed Korean threats represent only an attempt to pressure the UN Command into removing the teams. However, the possibility that Rhee may order action against them is enhanced by his need to divert attention from his current domestic political difficulties.

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PEIPING EXPECTED TO ASK  
HIGH PRICE FOR US AIRMEN

UN secretary general Hammarskjold plans to arrive in Peiping in early January after conferences with British and Indian officials in London and New Delhi.

Hammarskjold's request for an audience with Chou En-lai has already raised Peiping's prestige, and there seems some chance that the UN official will come to believe that Peiping has a good case against the American airmen. Peiping has publicly boasted that it will persuade Hammarskjold "beyond the shadow of a doubt" that the airmen are guilty.

Peiping's propaganda, while denying UN competence in the case, has apparently left room for a negotiated settlement. The Chinese Communists may make an opening bid, through Hammarskjold, to settle the case if the United States makes concessions on other issues.

Peiping has indicated it will discuss with Hammarskjold such matters as China's seat in the UN, the American-Chinese Nationalist security pact, American overflights of the mainland, Nationalist air and naval harassment of the coast and acts of "piracy" against merchant shipping, the disposition of Chinese prisoners in the Korean war and American detention of Chinese students.

Peiping's price for the airmen is expected to be high. Under the best of circumstances, the prospects appear poor for an early release of the airmen.

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## PART II

STATUS REPORTS  
ON OTHER SITUATIONS

Chinese Offshore Islands: Peiping is expected to resume its pressure on the Chinese offshore islands during stretches of clear weather this winter, and a Communist invasion of one or more of the major island groups is a continuing possibility.

The Nationalists began rotation of the Tachen garrison on 19 December and the Communists may seek to disrupt the operation by sea and air attacks. A reported Communist bombing raid on shipping near Lower Tachen on 21 December could be the opening move in such a plan.

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Viet Minh "Refugee" Movement: The Viet Minh may soon stage, for reasons of face, a token "refugee movement" from South Vietnam to the north. Seriously embarrassed by the sizable movement of refugees from the north, the Viet Minh has requested the truce commission to investigate the plight of pro-Viet Minh elements in the south. The Viet Minh deliberately left its troops' dependents in the south and some of these could stage a token south-to-north movement.

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Japan: Prime Minister Hatoyama's government is reported planning to seek a relaxation of COCOM restrictions on trade with the Orbit. The government has already eased limitations on travel to Communist countries for trade purposes.



Hatoyama is, however, a figurehead [redacted] is not expected to stay in power long. His government will be unable to deviate far from former prime minister Yoshida's foreign policy.

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French North Africa: Sporadic terrorism continues in the North African area, but the situation appears to be generally one of watchful waiting. Broadcasts from Radio Cairo and from Spanish Morocco by Radio Tetuan, after temporarily responding to French representations, have resumed much of their strong pronationalist tack. Radio Budapest continues its inflammatory broadcasts emphasizing French use of American military equipment.

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Finland: Prospects for stable majority government in Finland are poor despite the temporary solution of the recent cabinet crisis. A majority is possible in parliament only when the Agrarians and Social Democrats vote together and the two parties will have difficulty reaching a lasting agreement which would resolve their basic differences on economic policy. There is no immediate danger of an increase in Communist strength, but prolonged failure to cope with the wage-price problem could cause an economic deterioration which the Communists could exploit.

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Anti-Soviet Emigrés: There is good reason to believe that the USSR is making a concerted attempt to break the back of the anti-Soviet emigré movement in an effort to eliminate its value to the West. The campaign has included assassinations--for example, that of a Radio Liberation employee recently in Munich--a marked increase in Soviet efforts to induce

re-defections, and spreading of rumors that Moscow is preparing a conference of re-defectors and is considering a general amnesty of emigrés.

An effort of this kind might be particularly effective at this time. Emigré morale is low and the United States is accused of "indifference" to the dangers emigrés undergo in serving its cause.

New violence against emigrés might develop as an outgrowth of the recent exchange of notes between Washington and Budapest on the use of balloons.

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North Korean Conference: Pyongyang radio announced on 17 December that no South Koreans appeared at Kaesong on that date for the meeting North Korea had proposed to discuss the restoration of postal and other communications.

Greek Crisis: Strong resentment against the United States exists in Greece because of American opposition in the United Nations to the Greek resolution on Cyprus. This attitude may further impair the position of Prime Minister Papagos' Rally government, which is popularly identified with American policies.

Public dissatisfaction with the government has reached its highest point since Papagos assumed office in 1952. His regime is also threatened by defections from the Rally, palace intrigues, and the development of a unified opposition.

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Satellite Security Shake-ups: Further personnel shake-ups and reorganizations, similar to those which recently were announced in Poland, are anticipated for other Satellite security organizations, bringing them into close conformity with the current Soviet form. Concurrent with such steps, there will probably be additional releases of political prisoners. Czechoslovakia is the Satellite most likely to undergo such changes. Some minor figures in the Slansky trial, including the former editor of the party organ Rude Pravo, have been released, but the security officials who arranged for their trials still remain in office.

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Subversion on Formosa: The recently concluded mutual security pact with the United States may depress the morale of some Nationalist leaders and make them more vulnerable to Communist subversion, some Chinese Nationalists think. Such leaders would be those whose morale had been buoyed up by a belief in the possibility of an early American-supported return to the mainland, and who interpret the current pact as dimming or eliminating that hope.

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Guatemala: Alarmist reports from Guatemala can be discounted. They emanate chiefly from disappointed job-seekers. The Castillo regime is not threatened and there is no reason to expect serious disorders.

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Chile: Both houses of Congress have now rejected President Ibanez' request for endorsement of the state of siege which he declared on 20 September in order to combat Communism. According to a 23 December press report, Ibanez has ordered the state of siege maintained and has reinforced his palace guard. He will probably remain in control of the situation.

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